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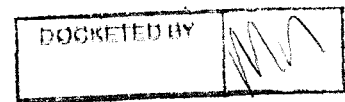
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April 17, 2009

Arizona Corporation Commission
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Sandra D. Kennedy
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007



Re: Letter Dated March 30, 2009; Arizona Public Service Company;
Docket No. E-01345A-08-0172

Dear Commissioner Kennedy:

Arizona Public Service Company ("APS" or "Company") provides this response to your letter of March 30, 2009 regarding APS's Demand Side Management Adjustor Charge ("DSMAC"), Time-of-Use ("TOU") rates and the effect both may have on APS's low income customers and houses of worship. Below are the questions in the order presented in your letter as well as the Company's responses.

Q.1. Does APS plan to request that the Arizona Corporation Commission ("Commission") remove the freeze that presently exists on APS's TOU religious houses of worship tariff (Rate Schedule E-20)? If not, why not? What would be the effect of unfreezing this tariff?

Response: APS's TOU Rate Schedule E-20 (Houses of Worship) was first implemented in 1996 as a result of a settlement agreement. See Decision No. 59601 (April 24, 1996). The schedule was subsequently frozen by the Commission in Decision No. 67744 (April 7, 2005), and after some discussion in the Company's last fully litigated rate case in 2007, it remained frozen. In its current rate application, neither APS nor any other party has proposed in their pre-filed testimony a change in the status of Rate Schedule E-20.

The rate was frozen in 2005 for two primary reasons.

(1) The rate schedule has proven to be difficult to administer. Pursuant to its

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applicability clause, the rate was available to "non-taxable houses of worship whose main purpose is worship and who have an established and continuing membership. Only the meter that measures service to the building in which the sanctuary or principle place of worship is located is eligible for this schedule." This limitation as to the scope of activities eligible for the rate is difficult to monitor and, over time, the definition had become difficult to apply. For example, today, houses of worship are often built to be multi-purpose facilities and are not used solely during the traditional times of worship. They are available weekdays for many uses and may contain meeting rooms and kitchen facilities available for use by other parties. Whether the "main purpose" of such facilities is worship is thus often difficult to ascertain.

- (2) After the rate was implemented, cost of service studies indicated that it was not producing revenues equal to the costs incurred to serve the customers participating on the rate. Based on the test year data for the current rate case, the average cost to serve customers on the rate schedule is approximately \$0.15 per kWh, while the rate generates approximately \$0.095 per kWh. This revenue shortfall is recovered from other APS customers. Because the rate is frozen, APS has not proposed to significantly modify the charges within E-20 to balance the cost to serve with the expected revenue.

For houses of worship that are not served under Rate Schedule E-20, APS offers services under other available general service rate schedules, including a general service time-of-use option. If the house of worship's electrical consumption is primarily on weekends or during other off-peak periods, the customer will enjoy savings compared to a non-TOU rate option.

In addition to general service TOU rate options, APS is also open to considering unfreezing Rate Schedule E-20 with appropriate adjustments to both the E-20 rate schedule and other general service rates classes in its general rate case. Further, APS is willing to consider other rate schedule options for houses of worship as an alternative to unfreezing Rate Schedule E-20 within the rate design process.

Q.2. Does APS plan to propose that religious houses of worship be held harmless from paying the DSMAC? What would be the effect of having religious houses of worship exempt from paying the DSMAC?

Response: In Decision No. 70961, the Commission exempted APS's low-income customers served under Rate Schedules E-3 and E-4 from paying the DSMAC charge. APS presently has not proposed in its general rate case that houses of worship be held harmless from paying the DSMAC. The effect of holding houses of worship harmless from the current

DSMAC, based on 2008 sales to E-20 customers, would be to shift approximately \$20,000 annually to other customers.

Q.3. If APS does not believe religious houses of worship should be exempt from paying the DSMAC, does APS plan to propose that religious houses of worship be held harmless from paying any increases in the DSMAC? What would the effect be of having religious houses of worship exempt from paying any increases in the DSMAC?

Response: Pursuant to Decision No. 70961, religious houses of worship are not exempt from paying the DSMAC. At this time, APS would not propose to exempt religious houses of worship served under Rate Schedule E-20 from future changes to the DSMAC. The level of future increases to the DSMAC cannot be determined since it will be based on the costs and results of DSM programs in the future and the level of such costs included in the Company's base rates. As such, the impact on either other customers or E-20 customers of exempting E-20 customers from future changes to the DSMAC cannot be determined. However, the effect of any exemption, either now or in the future, would be to shift DSMAC cost recovery to non-exempt customers.

Q.4. Are low income customers presently required to pay the DSMAC? If yes, does APS plan to propose that low income customers be held harmless from paying the DSMAC? If low income customers are presently required to pay the DSMAC, what would be the effect of having low income customers exempt from the DSMAC?

Response: As previously noted, the Commission exempted customers who participate in APS's low income rate schedules (E-3 and E-4) from the DSMAC in Decision No. 70961. Prior to that time, although, low income customers were not exempt from paying the DSMAC, they did not pay it as a practical matter because the DSMAC was set at zero. Based on 2008 sales to E-3 and E-4 customers, the current DSMAC costs that will be shifted to other customers because of this exemption total approximately \$400,000 annually.

Q.5. If low income customers are presently required to pay the DSMAC and APS does not believe low income customers should be exempt from paying the DSMAC, does APS plan to propose that low income customers be held harmless from paying any increases in the DSMAC? What would be the effect of having low income customers exempt from paying any increases in the DSMAC?

Response: Pursuant to Decision No. 70961, low income customers who participate in its low income Rate Schedules E-3 and E-4 are not required to pay the DSMAC. Until and unless that Commission policy changes, APS would assume E-3 and E-4 customers would be exempted from future increases in the DSMAC. But as indicated in response

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to Question No. 3, future increases to the DSMAC cannot be determined at this time; therefore, the effect of exempting low income customers from future changes to the DSMAC cannot presently be determined.

I hope this information is responsive to the questions posed in your letter. If there are any questions regarding this response, please feel free to contact me.

Sincerely,



Thomas L. Mumaw

TLM/na

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Commissioner Gary Pierce
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